

CHILDREN'S ACTION ALLIANCE

Financial Statements  
December 31, 2020 and 2019  
With Independent Auditors' Report



## **INDEPENDENT AUDITORS' REPORT**

The Board of Directors  
Children's Action Alliance  
Phoenix, Arizona

We have audited the accompanying financial statements of Children's Action Alliance (an Arizona not for profit corporation), which comprise the statements of financial position as of December 31, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Children's Action Alliance as of December 31, 2020 and 2019, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***JDS Professional Group***

***Certified Public Accountants, Consultants and Advisors, LLC***

June 24, 2021

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CHILDREN'S ACTION ALLIANCE  
Statements of Financial Position  
December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 805,446	\$ 316,797
Investments	1,464,653	1,437,855
Receivables		
Grants	465,000	166,109
Other	10,062	-
Prepaid expenses	8,882	17,678
Investments designated for endowment	207,516	198,614
Investments restricted for endowment	914,511	944,885
Leasehold improvements, furniture and equipment, less accumulated depreciation of \$60,434 and \$45,590	<u>65,552</u>	<u>80,396</u>
Total Assets	<u><u>\$ 3,941,622</u></u>	<u><u>\$ 3,162,334</u></u>
<b>LIABILITIES</b>		
Accounts payable	\$ 2,500	\$ 2,500
Accrued payroll and related benefits	30,471	30,471
Rent payable	<u>-</u>	<u>53,024</u>
Total Liabilities	<u>32,971</u>	<u>85,995</u>
<b>NET ASSETS</b>		
Net assets without donor restrictions		
Undesignated	1,525,671	934,246
Designated	<u>587,018</u>	<u>393,048</u>
	2,112,689	1,327,294
Net assets with donor restrictions	<u>1,795,962</u>	<u>1,749,045</u>
Total Net Assets	<u>3,908,651</u>	<u>3,076,339</u>
Total Liabilities and Net Assets	<u><u>\$ 3,941,622</u></u>	<u><u>\$ 3,162,334</u></u>

The accompanying notes are an integral part of these statements

CHILDREN'S ACTION ALLIANCE  
Statements of Activities  
For the Years Ended December 31, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
REVENUES AND OTHER SUPPORT						
Contributions	\$ 136,073	\$ -	\$ 136,073	\$ 76,257	\$ 90,850	\$ 167,107
Grants and contracts	543,000	2,526,507	3,069,507	632,610	1,401,977	2,034,587
CARES Act payment forgiveness	49,300	-	49,300	-	-	-
Special event, net of direct benefits of \$34,345	4,080	-	4,080	-	-	-
Other events	769	-	769	11,342	-	11,342
Interest	40,371	18,898	59,269	44,090	22,854	66,944
Realized and unrealized gains (losses), net of fees of \$15,195 and \$16,496	(3,877)	8,228	4,351	160,302	105,092	265,394
Other	6,433	-	6,433	7,419	-	7,419
Net assets released from restrictions:						
Satisfaction of program restrictions	2,506,716	(2,506,716)	-	1,153,670	(1,153,670)	-
Total Revenues and Other Support	3,282,865	46,917	3,329,782	2,085,690	467,103	2,552,793
EXPENSES						
Program services						
Total Program Services	2,194,971	-	2,194,971	1,736,596	-	1,736,596
Supporting activities						
General and administrative	168,828	-	168,828	179,347	-	179,347
Fund raising	133,671	-	133,671	119,435	-	119,435
Total Supporting Activities	302,499	-	302,499	298,782	-	298,782
Total Expenses	2,497,470	-	2,497,470	2,035,378	-	2,035,378
CHANGE IN NET ASSETS	785,395	46,917	832,312	50,312	467,103	517,415
NET ASSETS, BEGINNING OF YEAR	1,327,294	1,749,045	3,076,339	1,276,982	1,281,942	2,558,924
NET ASSETS, END OF YEAR	\$ 2,112,689	\$ 1,795,962	\$ 3,908,651	\$ 1,327,294	\$ 1,749,045	\$ 3,076,339

The accompanying notes are an integral part of these statements

CHILDREN'S ACTION ALLIANCE  
Statement of Functional Expenses  
For the Year Ended December 31, 2020

		Supporting Activities			
	Total Program Services	General and Administrative	Fund Raising	Total Supporting Activities	Total
Salaries and related benefits	\$ 1,174,540	\$ 117,461	\$ 111,861	\$ 229,322	\$ 1,403,862
Advertising and promotion	116,268	-	-	-	116,268
Conferences, conventions and meetings	15,900	-	40,741	40,741	56,641
Contractual services	733,195	34,888	3,000	37,888	771,083
Contributions	4,901	-	-	-	4,901
Depreciation	11,876	2,969	-	2,969	14,845
Information technology	42,917	2,926	2,926	5,852	48,769
Insurance	2,213	123	123	246	2,459
Occupancy	43,539	3,444	3,444	6,888	50,427
Office	24,850	4,115	3,480	7,595	32,445
Postage	2,046	256	256	512	2,558
Printing	12,504	1,191	1,998	3,189	15,693
Professional dues and memberships	3,805	1,268	-	1,268	5,073
Publications and subscriptions	3,359	187	187	374	3,733
Travel	3,058	-	-	-	3,058
Total Expenses Including Special Event Direct Benefits	2,194,971	168,828	168,016	336,844	2,531,815
Special Event Direct Benefits	-	-	(34,345)	(34,345)	(34,345)
Total Expenses	<u>\$ 2,194,971</u>	<u>\$ 168,828</u>	<u>\$ 133,671</u>	<u>\$ 302,499</u>	<u>\$ 2,497,470</u>

The accompanying notes are an integral part of this statement

CHILDREN'S ACTION ALLIANCE  
Statement of Functional Expenses  
For the Year Ended December 31, 2019

		Supporting Activities			
	Total Program Services	General and Administrative	Fund Raising	Total Supporting Activities	Total
Salaries and related benefits	\$ 1,025,022	\$ 100,025	\$ 97,621	\$ 197,646	\$ 1,222,668
Advertising and promotion	27,577	1,694	1,694	3,388	30,965
Conferences, conventions and meetings	37,503	-	-	-	37,503
Contractual services	369,386	55,674	4,084	59,758	429,144
Contributions	52,800	-	-	-	52,800
Depreciation	11,876	2,969	-	2,969	14,845
Information technology	32,954	2,247	2,247	4,494	37,448
Insurance	2,123	118	118	236	2,359
Occupancy	94,837	8,331	8,331	16,662	111,499
Office	30,317	4,096	3,190	7,286	37,603
Postage	3,835	479	479	958	4,793
Printing	12,421	1,183	1,183	2,366	14,787
Professional dues and memberships	2,041	2,042	-	2,042	4,083
Publications and subscriptions	1,416	79	78	157	1,573
Travel	32,488	410	410	820	33,308
Total Expenses	<u>\$ 1,736,596</u>	<u>\$ 179,347</u>	<u>\$ 119,435</u>	<u>\$ 298,782</u>	<u>\$ 2,035,378</u>

The accompanying notes are an integral part of this statement

CHILDREN'S ACTION ALLIANCE  
Statements of Cash Flows  
For the Years Ended December 31, 2020 and 2019

	2020	2019
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 832,312	\$ 517,415
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	14,845	14,845
Forgiveness of CARES Act PPP loan	(39,300)	-
Unrealized (gains) on investments	(15,074)	(97,697)
Unrealized (gains) on investments designated for endowment	(6,043)	(12,932)
Unrealized and realized (gains), interest and dividends on investments restricted for endowment	(27,126)	(133,998)
Changes in operating assets and liabilities		
(Increase) decrease in assets:		
Grants receivable	(298,891)	(166,109)
Other receivable	(10,062)	-
Prepaid expenses	8,796	(8,795)
Increase (decrease) in liabilities:		
Accounts payable	-	2,500
Accrued payroll and related benefits	-	(144)
Rent payable	(53,024)	(1,823)
Total adjustments	(425,879)	(404,153)
Net Cash Provided by Operating Activities	406,433	113,262
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net (purchase) sale of investments	(41,710)	(186,577)
Release of investments restricted for endowment used for operations	57,500	60,050
Net Cash Provided (Used) by Investing Activities	15,790	(126,527)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds on CARES Act PPP loan	39,300	-
Proceeds on EIDL	10,000	-
Payments on EIDL	(10,000)	
Realized and unrealized gains, interest, and dividends restricted for endowment	27,126	133,998
Net Cash Provided by Financing Activities	66,426	133,998
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	488,649	120,733
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	316,797	196,064
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	\$ 805,446	\$ 316,797

The accompanying notes are an integral part of these statements

## CHILDREN'S ACTION ALLIANCE

Notes to Financial Statements

December 31, 2020 and 2019

### **NOTE 1 - Description of Organization and Summary of Significant Accounting Policies**

#### **Description of Organization**

Children's Action Alliance (the "Organization") was incorporated in 1988 in the State of Arizona and is in Phoenix, Arizona. The Organization acts as an independent voice for Arizona children at the state capitol and in the community. The Organization works to improve children's health, education, and security through information and action. Through research, publications, media campaigns, and advocacy, the Organization seeks to influence policies and decisions affecting the lives of Arizona children and their families on issues related to health, child abuse and neglect, early care and education, budget and taxes, juvenile justice, children and immigration, and working families. The Organization works toward a future in which all children have health insurance, no child is raised in poverty and hunger, every child enters school ready to learn and succeed, no child endures the ravages of abuse and neglect, every child has a place to call home, and struggling teens have the support they need to become responsible adults.

The Organization also operates the Arizona Center for Economic Progress, which was created to advance thoughtful analysis and effective policy solutions to shape a better future for every Arizonan through quality jobs, great education, and stronger communities.

#### **Basis of Accounting**

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all revenues when earned, rather than when received, and reflect all expenses when incurred, rather than when paid.

#### **Basis of Presentation and Accounting**

The Organization reports information regarding its financial position and activities according to two classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor-restricted are resources available to support operations and not subject to donor restrictions. The only limits on the use of net assets without donor restrictions are the broad limits resulting from the nature of the Organization, the environment in which it operates, the purposes specified in its corporate documents and its application for tax-exempt status, and any limits resulting from contractual agreements with creditors and others that are entered into during its operations.

Net assets with donor restrictions are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions perpetual, such as those that the donor stipulates that resources be maintained in perpetuity. There were no donor-imposed restrictions of a perpetual nature as of December 31, 2020 or 2019.

The Organization's unspent contributions are reported in net assets with donor restrictions if the donor limited their use, as are promised contributions that are not yet due. Contributions of property and equipment or cash restricted to acquisition of property and equipment are reported as net assets with donor restrictions if the donor has restricted the use of the property or equipment to a particular program. These restrictions expire when the assets are placed in service.



## CHILDREN'S ACTION ALLIANCE

### Notes to Financial Statements

December 31, 2020 and 2019

#### **NOTE 1 - Description and Summary of Significant Accounting Policies** (continued)

##### Basis of Presentation and Accounting (continued)

When a donor's restriction is satisfied, either by using the resources in the manner specified by the donor or by the passage of time, the expiration of the restriction is reported in the financial statements by reclassifying the net assets from net assets with donor restrictions to net assets without donor restrictions.

##### Donated Assets and Services

Donations of assets are recorded as contributions at fair value at the date of donation. Such donations are reported as increases in net assets without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use are reported as restricted contributions. The Organization did not receive any donated assets during the years ended December 31, 2020 and 2019.

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. There were no donated services that met the criteria for recognition during the years ended December 31, 2020 and 2019.

A substantial number of unpaid volunteers have made contributions of their time to the Organization's programs. However, these services do not fully meet the recognition criteria for inclusion in these financial statements.

##### Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., an exit price). Accounting principles generally accepted in the United States of America include a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. Observable inputs are inputs that market participants would use in pricing the asset or liability based on market data obtained from independent sources. Unobservable inputs reflect assumptions that market participants would use in pricing the asset based on the best information available in the circumstances. The fair value hierarchy is broken down into three levels based on the transparency of inputs as follows:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the measurement date. A quoted price for an identical asset or liability in an active market provides the most reliable fair value measurement because it is directly observable to the market.
- Level 2 – Pricing inputs other than quoted prices in active markets, which were either directly or indirectly observable as of the measurement date. The nature of these securities includes investments for which quoted prices are available but traded less frequently and investments where fair values can be determined using other similar securities, the parameters of which can be directly observed.
- Level 3 – Assets or liabilities that had little to no pricing observability as of the measurement date. These assets or liabilities are measured using management's best estimate of fair value, where the inputs into the determination of fair value are not observable and require significant management judgment or estimation.

## CHILDREN'S ACTION ALLIANCE

### Notes to Financial Statements

December 31, 2020 and 2019

#### **NOTE 1 - Description and Summary of Significant Accounting Policies** (continued)

##### Income Taxes

The Organization is exempt from income taxes under Internal Revenue Code Section 501(c)(3) and applicable Arizona Revised Statutes. Contributions to the Organization are tax-deductible within the limitations described by the Code.

As of December 31, 2020 and 2019, the Organization had no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. The Organization will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred. There was no unrelated business income for the years ended December 31, 2020 or 2019.

The Organization's informational tax returns are subject to review and examination by federal and state authorities. The tax returns remain open to examination for three years by federal authorities and for four years by state authorities.

##### Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. On an ongoing basis, management evaluates the estimates and assumptions based on new information. Management believes that the estimates and assumptions are reasonable in the circumstances; however, actual results could differ from those estimates.

##### New Accounting Pronouncement

In December 2018, the Financial Accounting Standards Board issued Accounting Standards Update No. 2018-20, *Leases*, which requires the Organization to recognize all leased property and equipment as assets on the statement of financial position with a corresponding liability resulting in a gross-up on the statement of financial position. The Organization will also be required to present additional disclosures as to the nature and extent of leasing activities. The requirements of this statement are effective for the Organization's year ending December 31, 2021. The Organization has not evaluated the impact of this standard.

##### Cash and Cash Equivalents

Cash and cash equivalents include amounts deposited in financial institutions and are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC). From time to time, these deposits may exceed the insurance amounts provided by the FDIC.

##### Investments

Investments consist of cash and sweep funds, common stock, fixed income securities, mutual funds, series HH bonds and shares in a pooled fund and are stated at fair value using quoted market prices. Unrealized gains and losses are included in the change in net assets. Expenses relating to investment revenues, including investment advisory fees, totaled \$15,195 and \$16,496 for the years ended December 31, 2020 and 2019, respectively, and have been netted with revenues in the accompanying statements of activities.

Cash and sweep funds are insured in limited amounts by the FDIC. Other certain investments are protected by the Securities Investor Protection Act.

CHILDREN'S ACTION ALLIANCE

Notes to Financial Statements

December 31, 2020 and 2019

**NOTE 1 - Description and Summary of Significant Accounting Policies** (continued)

Investments (continued)

Investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of the risk associated with certain investment securities; it is at least reasonably possible that changes in risks in the near term would materially affect account balances and the amounts reported in the financial statements.

Grants Receivable

Grants receivable are stated at the unpaid balances and represent amounts to be received. Management believes all balances are fully collectible and has not reported a valuation allowance.

Leasehold Improvements, Furniture and Equipment

Leasehold improvements, furniture and equipment are stated at historical cost. All acquisitions over \$2,500 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of assets are capitalized. The cost of other maintenance and repairs is expensed as incurred.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which is three to nine years.

Revenue Recognition

Contributions – The Organization recognizes contributions when cash, securities, or other assets; and unconditional promises to give or notification of beneficial interest is received. Conditional promises to give, that is, those with a measurable performance or other barrier and a right of return are not recognized until the conditions on which they depend have been met.

Revenue that is derived from cost reimbursement grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses are recognized as revenue when the Organization has incurred expenditures in compliance with specific grant provisions. Amounts received before incurred expenditures are reported as refundable advances in the statements of financial position. The Organization had no refundable advances as of December 31, 2020 or 2019.

Program Activities and Events – The Organization recognizes program activities and event revenue during the year when the related activity takes place. Amounts paid in advance are deferred to the year when the program or event takes place. There was no deferred revenue as of December 31, 2020 or 2019.

CHILDREN'S ACTION ALLIANCE  
Notes to Financial Statements  
December 31, 2020 and 2019

**NOTE 1 - Description and Summary of Significant Accounting Policies** (continued)

**Revenue Recognition** (continued)

The following table provides information about significant changes in the contract receivables:

	<u>2020</u>	<u>2019</u>
Grants receivable, beginning of the year \$	166,109	\$ -
Cash received during the year that was applied to grants receivable at the beginning of the year	(166,109)	-
Increase in grants receivable due to commitments received during the year	<u>465,000</u>	<u>166,100</u>
Grants receivable, end of the year	<u>\$ 465,000</u>	<u>\$ 166,109</u>

**Functional Expenses**

The costs of providing programs and other activities have been summarized on a functional basis in the accompanying statements of activities. The statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the program service and supporting activities benefited. Directly identifiable expenses are charged to program services or supporting activities. Expenses related to more than one function are charged to program service and supporting activities based on periodic expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

**Advertising**

The Organization receives grant funds that require advertising to promote specific programs for children and families. The costs of advertising are expensed as incurred and during the years ended December 31, 2020 and 2019, totaled \$116,268 and \$30,965, respectively.

**Reclassification**

The December 31, 2019, financial statements have been reclassified to be consistent with the December 31, 2020, financial statements. Reclassifications did not affect the prior year's change in net assets.

**Supplementary Disclosures – Statements of Cash Flows**

Cash of \$62 was paid for interest for the year ended December 31, 2020. No cash was paid for income taxes, or excise taxes during the years ended December 31, 2020 or 2019.

# CHILDREN'S ACTION ALLIANCE

## Notes to Financial Statements

December 31, 2020 and 2019

### **NOTE 2 - Investments**

The investment portfolio is included in the statements of financial position as:

	<u>2020</u>	<u>2019</u>
Unrestricted	\$ 1,464,653	\$ 1,437,855
Designated for endowment	207,516	198,614
Restricted for endowment	<u>914,511</u>	<u>944,885</u>
	<u>\$ 2,586,680</u>	<u>\$ 2,581,354</u>

Fair value of investments measured on a recurring basis at December 31, 2020, are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and sweep funds	\$ 250,557	\$ -	\$ -	\$ 250,557
Common stock	1,346,096	-	-	1,346,096
Fixed income securities	-	103,815	-	103,815
Mutual funds	323,196	-	-	323,196
Series HH bonds	53,000	-	-	53,000
Pooled funds	<u>-</u>	<u>510,016</u>	<u>-</u>	<u>510,016</u>
	<u>\$ 1,972,849</u>	<u>\$ 613,831</u>	<u>\$ -</u>	<u>\$ 2,586,680</u>

Fair value of investments measured on a recurring basis at December 31, 2019, are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Cash and sweep funds	\$ 178,012	\$ -	\$ -	\$ 178,012
Common stock	1,539,791	-	-	1,539,791
Fixed income securities	-	126,926	-	126,926
Mutual funds	175,898	-	-	175,898
Series HH bonds	53,000	-	-	53,000
Pooled funds	<u>-</u>	<u>507,727</u>	<u>-</u>	<u>507,727</u>
	<u>\$ 1,946,701</u>	<u>\$ 634,653</u>	<u>\$ -</u>	<u>\$ 2,581,354</u>

Investments in pooled funds consist of amounts invested in the Arizona Community Foundation's ("ACF") long-term pool, a common equity investment pool (the "Pool") that is managed by ACF's investment committee. The Organization has an ownership interest in the Pool, which is based upon the ratio of the market value of individual fund account balances to the total market value of the Pool. The ratio is used to allocate future activity and is recalculated each time a contribution or withdrawal is made.

### **NOTE 3 - Endowment**

The Board of Directors has established an endowment to fund the early childhood program that includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. Net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. Donor-restricted contributions to the fund are recorded as increases to net assets

# CHILDREN'S ACTION ALLIANCE

## Notes to Financial Statements

December 31, 2020 and 2019

### **NOTE 3 - Endowment** (continued)

with donor restrictions. The principal in the endowment has not been restricted in perpetuity and can be expended with Board approval, with the intent that only the earnings will be used for the intended program.

The Organization has interpreted the State of Arizona's enacted version of the Uniform Prudent Management of Institutional Funds Act as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted contribution, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions, (a) the original value of gifts on the date received by the Organization, (b) the original value of subsequent gifts on the date received by the Organization and (c) accumulations to the endowment made under the applicable donor gift instrument at the time the accumulation is added to the fund. The donor-restricted endowment fund is classified as donor-restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the donor restriction.

The Organization has adopted investment and spending policies for endowment assets with the objectives of preserving capital while concentrating on long-term growth. Accordingly, the investment objective is to achieve over a three to five-year market cycle, returns that will exceed inflation, plus 5% distributed to cover expenses as directed by the Board of Directors. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund and investment assets and allocation between asset classes, and strategies are managed to ensure the fund is not exposed to an unacceptable level of risk. The spending policy determines the amount of money that will be distributed from the Organization's endowment assets. The current spending policy is to evaluate the earnings of the endowment fund for the prior year and the planned expenditures for staff and projects for the early childhood program as a part of the annual Organization budget process. Recommendations will then be made for distributions from the endowment fund. The target distribution is 5% of the endowment fund balance, leaving the principal plus additional earnings in the fund. However, based on actual returns and the needs of the Organization, distributions may be below or above 5%.

The endowment net assets composition by type of fund are as follows:

	<u>2020</u>	<u>2019</u>
Board-designated	\$ 207,516	\$ 198,614
Donor-restricted	<u>914,511</u>	<u>944,885</u>
	<u>\$ 1,122,027</u>	<u>\$ 1,143,499</u>

The change in endowment net assets for the year ended December 31, 2020, is as follows:

	<u>Board- Designated</u>	<u>Donor- Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2020	\$ 198,614	\$ 944,885	\$ 1,143,499
Investment gains, net of fees	8,902	27,126	36,028
Distributions for operations	<u>-</u>	<u>(57,500)</u>	<u>(57,500)</u>
Endowment net assets, December 31, 2020	<u>\$ 207,516</u>	<u>\$ 914,511</u>	<u>\$ 1,122,027</u>

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**NOTE 3 - Endowment** (continued)

The change in endowment net assets for the year ended December 31, 2019, is as follows:

	<u>Board- Designated</u>	<u>Donor- Restricted</u>	<u>Total</u>
Endowment net assets, January 1, 2019	\$ 182,049	\$ 877,784	\$ 1,059,833
Investment gains, net of fees	16,565	127,151	143,716
Distributions for operations	<u>-</u>	<u>(60,050)</u>	<u>(60,050)</u>
Endowment net assets, December 31, 2019	<u>\$ 198,614</u>	<u>\$ 944,885</u>	<u>\$ 1,143,499</u>

**NOTE 4 - Leasehold Improvements, Furniture and Equipment**

Leasehold improvements, furniture and equipment consists of the following:

	<u>2020</u>	<u>2019</u>
Leasehold improvements	\$ 37,491	\$ 37,491
Office furniture and equipment	<u>88,495</u>	<u>88,495</u>
	125,986	125,986
Less accumulated depreciation	<u>(60,434)</u>	<u>(45,590)</u>
	<u>\$ 65,552</u>	<u>\$ 80,396</u>

Depreciation expense was \$14,845 for each year.

**NOTE 5 - CARES Act Payments**

In response to the COVID-19 pandemic, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act"), a nationwide financial stimulus package was signed into federal law on March 27, 2020. The Organization received the following benefits:

**Small Business Administration – Paycheck Protection Program Conditional Grant**

Included in the CARES Act, are loans administered by the Small Business Administration that are available to small businesses, including not for profit organizations. These loans can be forgiven if employee retention criteria are met, and the funds are used for eligible expenses during the allowable period, which is defined as 24 weeks following the loan disbursement date. Borrowers are eligible for forgiveness of principal and accrued interest on the loans when the borrower provides expense documentation meeting the CARES Act loan criteria. In the event the borrower would not meet the criteria for loan forgiveness, any unforgiven loan amounts plus interest at 1%, must be repaid within five years.

The Organization received \$39,300 in April 2020, in loan proceeds under this Act. In December 2020, the loan was forgiven in full and is included as revenue in the statement of activities as of December 31, 2020.

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**NOTE 5 - CARES Act Payments** (continued)

**Economic Injury Disaster Loan**

The Organization received an Economic Injury Disaster Loan (EIDL) in April 2020 for \$10,000. The Organization repaid this loan including interest in December 2020. This payment was reimbursed to the Organization in February 2021 and is reported in other receivables as of December 31, 2020.

**NOTE 6 - Designated Net Assets**

Designated net assets are determined by management and the Board of Directors, and consist of the following:

	<u>2020</u>	<u>2019</u>
Future projects	\$ 379,502	\$ 194,434
Endowment	<u>207,516</u>	<u>198,614</u>
	<u>\$ 587,018</u>	<u>\$ 393,048</u>

Net assets designated for future year projects consist of unrestricted grant revenue received that has been designated by management to fund anticipated projects in progress in the subsequent year.

The endowment funds are designated for early childhood programs and consist of the corpus of the initial investments designated by the Board of Directors and allocated earnings, net of fees and approved distributions.

**NOTE 7 - Net Assets with Donor Restrictions**

Net assets with donor restrictions are available for the following purposes:

	<u>2020</u>	<u>2019</u>
Future projects	\$ 881,451	\$ 713,310
Sponsorships for event	-	90,850
Endowment	<u>914,511</u>	<u>944,885</u>
	<u>\$ 1,795,962</u>	<u>\$ 1,749,045</u>

Net assets restricted for future projects consist of donor-restricted grant revenue received to fund anticipated projects in progress in the subsequent year.

During 2019, sponsorships were received for the Through the Eyes of a Child event that was originally planned to be held in late 2019. The event was postponed and held in January 2020.

The endowment fund is restricted for early childhood programs and consists of the corpus of the initial investments restricted by donors and allocated earnings, net of fees and approved distributions.



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### **NOTE 8 - Net Assets with Donor Restrictions Releases**

Net assets were released from donor restrictions by incurring expenses satisfying the following restricted purposes:

	<u>2020</u>	<u>2019</u>
Current year projects	\$ 2,358,366	\$ 1,093,620
Sponsorships for event	90,850	-
Endowment	<u>57,500</u>	<u>60,050</u>
	<u>\$ 2,506,716</u>	<u>\$ 1,153,670</u>

### **NOTE 9 - Operating Lease Commitments**

#### Office Space

The Organization entered into an agreement for office space with monthly rent payments of \$7,469, which increase annually up to \$8,883 per month. In November 2020, the Organization relocated within the same building and the lease was amended with rent payments of \$4,037 increasing to \$4,138 through the remainder of the lease. Rent expense had been recognized on a straight-line basis over the lease term taking into consideration rent abatements and escalating payments. As a result, the Organization had recorded rent payable of \$53,024 on December 31, 2019, which is included in accrued expenses on the statements of financial position. The rent payable was written off as of December 31, 2020, due to the lease modification. Rent expense was \$43,053 including the rent payable write-off as of December 31, 2020, and was \$91,443 as of December 31, 2019.

The Organization also leases office space in Tucson, Arizona under an agreement beginning in January 2019 requiring rent payments of \$800 for the first month, payments of \$600 through December 2019, and renews on a month-to-month basis. Rent expense under this agreement was \$7,200 and \$7,400 for the years ended December 31, 2020 and 2019, respectively.

#### Office Equipment

Office equipment is leased under an operating agreement that required monthly payments of \$657, plus taxes. The agreement was replaced with a lease for thirty-six months beginning in September 2020 for \$465 per month plus taxes. The rental expense was \$7,113 and \$7,881 for the years ended December 31, 2020 and 2019, respectively.

Minimum future rental payments under these office space and equipment operating lease commitments are as follows:

#### Year ending December 31,

2021	\$ 51,721
2022	52,284
2023	51,551
2024	48,959
2025	24,761

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**NOTE 10 - Retirement Plan**

The Organization has a 403(b) plan for eligible employees. Employees' withholdings to the plan were matched up to 3% each year and are determined annually by the Board. Total contributions to the plan were \$30,387 and \$17,214 for the years ended December 31, 2020 and 2019, respectively.

**NOTE 11 - Liquidity and Funds Available**

As a part of the Organization's liquidity management, the Organization has established policies to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due. The Organization manages its liquidity and reserves by operating under an adopted budget for operating expenses based on committed and anticipated revenue, maintaining adequate liquid assets to fund near-term operating needs and maintaining sufficient reserves to provide reasonable assurance that long-term funding objectives can be achieved.

The Organization considers financial assets unavailable for general operations when balances held are not convertible to cash within one year, are received from donors with a specific purpose or time restrictions, have been designated by the Board of Directors for a specific purpose, or are impacted by limits imposed by specific laws or contracts.

The following table reflects the Organization's financial assets available to meet cash needs for general expenditures within one year as of December 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Financial assets:		
Cash and cash equivalents	\$ 805,446	\$ 316,797
Investment	2,586,680	2,581,354
Receivables	<u>475,062</u>	<u>166,109</u>
	<u>3,867,188</u>	<u>3,064,260</u>
Less those unavailable for general expenditure within one year, due to:		
Board designations	(587,018)	(393,048)
Donor restrictions	<u>(1,795,962)</u>	<u>(1,749,045)</u>
	<u>(2,382,980)</u>	<u>(2,142,093)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 1,484,208</u>	<u>\$ 922,167</u>

**NOTE 12 - Contingency**

The Organization has issued credit cards to employees for Organization-related business purchases with a total credit limit of \$50,000.

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**NOTE 13 - Risks and Uncertainties**

The global community has been under a significant threat from the COVID-19 pandemic. The extent to which the COVID-19 pandemic impacts the Organization's business, results of operations and financial condition will depend on future developments, which are still uncertain and cannot be predicted. Even after the COVID-19 pandemic has subsided, the Organization may continue to experience adverse impacts to its business because of any economic recession or depression that has occurred or may occur in the future. Therefore, the Organization cannot reasonably estimate the impact at this time.

**NOTE 14 - Subsequent Events**

Management has evaluated subsequent events through the report date that is the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.